

COMPOSITION, DIRECTION AND INTRA-REGIONAL TRADE AMONG SAARC COUNTRIES – AN ANALYSIS

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ABSTRACT

South Asian Association for Regional Cooperation (SAARC) was established for shared regional prosperity through cooperation of member countries. But the SAARC could not make desired progress due to limited trade between members. The intra-regional trade share of SAARC is low and stagnant for a very long period. While the small economies of SAARC depend on India for their trade, there is limited trade between larger economies of the groupings. The trade similarities and similar production structure makes the regional cooperation difficult. The paper examined the volume and composition of trade by the SAARC countries for the year 2012. It also examined the direction of individual member countries of SAARC and identified top ten trade partners with them. The data are collected from the UNCTAD online statistical, International Trade Statistics of WTO and the COMTRADE database of the United Nations. The paper found that the low intra-regional trade makes SAARC a shallow union after twenty five years. Until and unless the big economies of SAARC substantially increase their trade volume and remove the barriers, the SAARC continues to be a mirage for years to come.

KEYWORDS: SAARC, Intra-Regional Trade, Regional Trade Agreements, Trade Direction

INTRODUCTION

The world trading system witnessed proliferation of Regional Trade Agreements in the later part of the twentieth century. Regional cooperation such as RTAs is perceived as an alternative to multilateral trade liberalization. The slow pace of WTO negotiations and the difficulty in arriving at consensus made many countries to engage in Regional Trade Agreements (RTAs). The initiate for SAARC also came from proliferation of RTAs. South Asian Association for Regional Cooperation (SAARC) was formed in the year 1985 by seven countries of South Asia namely, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Afghanistan joined SAARC in the year 2007. The main objective of SAARC is to promote greater regional coordination in economic, social, and cultural issues and present a unified voice to the rest of the world. India is a bigger player in SAARC compared with other members of the SAARC. In terms of GDP, Geographical size, Population and trade performance India outwits all other members of SAARC and remain on top with a fair distance. The total trade of SAARC countries for the year 2012 is 1688 billion where the export from the region constitutes 729.21 billion and import in to the region was 958.79 billion. The export growth of SAARC fell from 35.72 percent to -3.55 for the period 2011 to 2012 where the import growth also slipped from 31.55 percent to a modest 3.26 percent. This is mainly due to the difficult external environment affected global economic recession.

INTRA –REGIONAL TRADE IN SAARC

Economists consider higher intra-regional trade as a precondition for successful functioning of an RTA. Intra-regional trade is an indicator which shows how an RTA integrates itself to meet its desired objectives of the grouping. Intra-regional trade among SAARC countries is low compared to other regional groupings in Asia and rest of the world.

It remained stagnant for the entire period of its existence ranging from 4 to 6 percent. This shows that SAARC has not made significant strides in regional integration and continues as a shallow integration for a long period of time. The intra-regional trade share of SAARC countries for the year 2012 is at 5.77 percent of their total trade.

Commodity compositions intra-regional trade of SAARC shows that the trade is confined to few traditional commodities. South Asian countries share similar socio economic conditions and they produce similar products and consume similar commodities. This trade similarity makes trade possibilities limited for the region. The table-1 shows top twenty commodities traded by SAARC countries among themselves for the year 2012 Petroleum Oils is the single largest item of imports (7.84 percent) followed by cotton fabrics (5.28), cotton (4.71 percent) and textile yarn (4.70 percent). This showed textile products are the top three out of four products (13.69 percent) traded by the SAARC countries. Other imported traded items of SAARC for the year 2012 are Lime, cement, (2.98 percent), Sugar, molasses and honey (2.57 percent), Fabrics, woven, of man-made fabrics (2.25 percent), Fruits and nuts (excluding oil nuts), fresh or dried (2.21 percent) Wheat (including spelt) and meslin, unmilled (2.15 percent) and Vegetables (1.99 percent).

COMMODITY COMPOSITION OF SAARC COUNTRIES

Table-2 provides the major commodities exported and imported by Bangladesh in the year 2012. The share of agricultural products and Fuels and Minerals goods in the export of Bangladesh is very low with 5.22 percent and 1.06 percent respectively. The most dominant item in Bangladesh's export is Clothing which accounted 79.43 percent of the total export. This is one of the reasons for having low intra regional export to Bangladesh as it is having export similarity with other South Asian countries. This high dependence on clothing made Bangladesh highly dependent on developed nations for its export market. Apart from clothing, Textile (6.51 percent) also contributes to the export earnings of Bangladesh.

Bangladesh's import mainly consists of Manufacture (57.34 percent), Agricultural products (28.62 percent) and Fuels and Mining Products (9.43 percent). Machinery and Transport Equipment (21.86 percent) is the single largest item of import under manufactured products; food (21.22 percent) is the largest item of import under Agricultural products.

Bhutan is one of the small and less developed economies in the SAARC region. So the export base of Bhutan is restricted to few select commodities. The major commodities Bhutan exported in the year 2012 are Fuel, Food items and some manufactured products like Iron and Steel and Chemicals. The major items imported for the year includes Machinery and Transport Equipment (36.24.76 percent), Fuel items (15.14 percent), Automotive (13.39 percent) and Food (10.92 percent).

India being the major economy in SAARC, its trade is more diversified compared with other members of SAARC. Manufactured products (61.24 percent) are the important export category for India along with Fuels & Mineral products (21.88 percent) and Agricultural products (14.41 percent) for the year 2012. Machinery and Transport Equipment, Chemicals, textile and Clothing are some the manufactured products India exported to its trade partners.

India is a major importer of petroleum products in the region and Fuels are the single largest item of India's import for a long time (42.94 percent in 2012). Manufactured products account 38.46 percent of the total import. Under the Manufactured products, Machinery and Transport Equipment (216.13 percent), Chemicals (9.09 percent) and Office and Telecom Equipment (5.13 percent) are the major categories of import.

Maldives' export base is narrow and confined to fish and marine products. All other essential commodities they are importing from its partners. This includes Agricultural products particularly food products, Fuels and Mineral products and Manufacturing items such as Machinery and Transport Equipment, Chemicals and Office and Telecom Equipments.

Nepal's major export commodities are Food Products (21.84 percent), Textiles (32.16 percent) and clothing (10.54 percent). Major Imports are Machinery and Transport Equipment (18.37 percent), Food products (16.39 percent), Fuel (2.72 percent) and Chemicals (12.07 percent). All this imports and exports are mainly directed to its major trading partner India.

Pakistan's export basket is dominated by two commodities namely Textiles (35.43 percent) and Clothing (17.15 percent) which account for most of their export. Other export items of importance are food products (17.04 percent) and Chemicals (3.78 percent).

The major import items of Pakistan are Fuels (36.11 percent), Machinery and Transport Equipment (18.37 percent), Chemicals (14.92 percent), Food items (10.97 percent), Office and Telecom Equipments (4.19 percent) and Automotives (3.29 percent). Manufacture commodities form the bulk of the Sri Lanka's export (69.31 percent) followed by agricultural products (29.13 percent). Food products are the important export item under agricultural products (25.86 percent). Among the manufactured goods bulk of the exports is taking in clothing (42.70 percent). Single largest item of Sri Lanka's import is Machinery and Transport Equipment. Fuels, Food, Chemicals and Office and Telecom Equipments are other major import items. Manufacture Product account for 58.62 percent of Sri Lankan imports.

DIRECTION OF TRADE AMONG SAARC COUNTRIES

More than 95 percent of SAARC trade is taking place with countries outside the subcontinent and play an important role in the overall trade performance of the SAARC countries. Extra regional trade also shows diverse pattern among SAARC countries. Post independent period India depended heavily on erstwhile Soviet Union for its trade along with European Countries. After the disintegration of USSR, United States became the single largest trading partner for India. India's trade with China is also improving rapidly in the recent past. Pakistan's strongest trading partners are the US, China and the Middle east countries. This is due to strategic and political relationship Pakistan maintained with these countries to minimize the dependence on India. Bangladesh's exports were concentrated to US and European countries. Nepal and Sri Lanka have historic trade relations with India.

Bangladesh's exports to SAARC countries are only 2.85 percent of its trade and bulk of it is with India (2.34 percent). India's export share with SAARC countries is (4.89 percent) the three important export partners of India in SAARC are Bangladesh (1.69 percent), Sri Lanka (1.31 percent) and Nepal (1.02 percent). Maldives important export partner in SAARC is Sri Lanka (8.56 percent) followed by India (3.30 percent). More than half of Nepal's export is with India (58.13 percent) and they depend heavily on India for their export market. Pakistan, the second largest economy in the region is trading relatively less but it has high trade with the latest entrant of SAARC namely Afghanistan. The largest export partner for Sri Lanka in the region is India (5.79 percent) and limited trade with Pakistan, Maldives and Bangladesh.

While the import shares of smaller economies are relatively high, the two big economies of SAARC namely India and Pakistan are having small import share from the region. The highest intra-regional import share is for Nepal (52.31 percent) followed by Sri Lanka (24.71 percent), Bangladesh (15.51 percent) and Maldives (13.96). Vast majority of these imports are coming from India as India is a dominant player in the region. But India's import share is much smaller than its export share and that is affecting the overall trade performance of the region.

Trade share of all countries of the region is high except India. India's trade share is 2.19 percent and this is due to the abysmally small import share it is having with other members of the group. This is also due to similar production structure of the region and export similarity and import similarity. Until and unless India and Pakistan open up their trade for the members and start importing more from the region, intra SAARC trade will remain at the undesirable low levels.

The percent share of Bangladesh trade with its partners shows the major import source is China (13.89 percent), India (11.24 percent) and Japan (9.64 percent). Other important import source includes Singapore, South Korea, Hong Kong, Indonesia, US, and Malaysia. From the SAARC region, apart from India, Pakistan also figures as the important import partner for Bangladesh. US (26.24 percent), Germany (16.82), UK (11.46 percent) and France (7.59 percent) are the major export destination for Bangladesh in the year 2004. Bangladesh export Clothing and Textiles to these countries. Other important export partners include Netherlands, Italy Belgium, Canada and Spain. In SAARC region India and Pakistan are the important export destination for Bangladesh.

India is improving its trade relations with China and East Asian countries in the recent past. China (11.06 percent), US (4.92 percent) Switzerland (5.86 percent) and Germany (3.02) are the important countries through which India source its non-oil import. Petroleum products are the single most important item of India's import. India's important petroleum import partners are Saudi Arabia (6.70 percent) and UAE (12.16 percent). Major export destinations for India are US (12.64 percent), UAE (12.16), China (5.01) and Singapore (4.61).

Maldives import for the year 2012 is mainly from UAE (29.93 percent), Singapore (18.16 percent), and India (9.50 percent). Other import sources are Sri Lanka, Malaysia, Thailand and China. The major export destinations of Maldives are Thailand (14.11 percent), France (8.51 percent), Italy (3.95 percent), UK (3.82 percent) and Sri Lanka (3.71 percent).

More than half of the Nepal's import and export is with its neighbor India. This is mainly because of the bilateral trade and Investment Treaty India signed with Nepal. Other important import sources are China (11.66 percent) and UAE (5.56 percent). Apart from India other export destinations for Nepal are US (7.74 percent) and Germany (4.51 percent).

Pakistan's Import is not concentrated on one country. Pakistan's oil requirements are met by importing from UAE (16.33 percent), Saudi Arabia (9.70 percent) and Kuwait (9.53 percent). Non oil imports are coming from traditional trade partners such as China (15.44 percent), Malaysia (4.83 percent), and Japan (4.25). United States is the important export destination to Pakistan. In 2012, 14.91 percent of the Pakistan's export went to US alone. This is due to the strategic relationship the two countries entered in to for long time. The other major export partners are UAE (11.60 percent), China (10.65 percent), Afghanistan (8.54 percent) and UK (4.96 percent). From the SAARC region, Bangladesh, and Afghanistan figure in the export destination of Pakistan.

India enjoys important trade relations with Sri Lanka in the recent past particularly after signing the FTA agreement. India is the largest exporter and third largest importer from Sri Lanka in the year 2012. Major Sri Lankan import also coming from China (13.39 percent), UAE (6.74 percent), Singapore (6.71 percent) and Iran (3.45 percent). Largest share of Sri Lankan export is going to United States (22.55 percent) followed by UK (11.28 percent) and India (6.04 percent). Maldives and Pakistan are the other SAARC countries having trade with Sri Lanka.

CONCLUSIONS

Even after 25 years of existence SAARC failed to integrate well to take advantage of the opportunities. Intra-regional trade is very low and there is very limited progress in meeting the target set under South Asian Free Trade

Agreement. The main reason for the tardy progress of SAARC integration is the abysmally low level of trade between two largest partners namely India and Pakistan. The immediate concern for the success of SAARC is to remove the irritants between member nations for augmenting increased flow of trade between them. Second, they need to encourage cross border investment. To this end, creation of a supportive policy structure and attractive investment environment are indispensable. Third and equally important is the development of supply chains. Apart from tariff rates and market access, trade facilitation measures should be carried out across SAARC for improving trade ties. Also South Asian countries should abolish Non-Tariff Barriers (NTBs) so that free flow of trade happens unhindered. Cooperation in the area of harmonization of product standards, customs procedures and other regulations would certainly help to achieve the objectives of expansion of sub-regional trade, investment and supply chain development.

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APPENDICES

Table 1: Intra SAARC Trade Share of Top 20 Commodities

| Commodity Code | Product Name | Trade Value | Trade Share |
|----------------|--|-------------|-------------|
| 334 | Petroleum oils or bituminous minerals > 70 % oil | 1592520.957 | 7.84 |
| 652 | Cotton fabrics, woven | 1073320 | 5.28 |
| 263 | Cotton | 956982.917 | 4.71 |
| 651 | Textile yarn | 954025.314 | 4.70 |
| 081 | Feeding stuff for animals (no unmilled cereals) | 604950.481 | 2.98 |
| 661 | Lime, cement, fabrica. constr. mat. (excluding lass, clay) | 604658.957 | 2.98 |
| 061 | Sugar, molasses and honey | 521245.027 | 2.57 |
| 653 | Fabrics, woven, of man-made fabrics | 457532.675 | 2.25 |
| 057 | Fruits and nuts (excluding oil nuts), fresh or dried | 448465.233 | 2.21 |
| 041 | Wheat (including spelt) and meslin, unmilled | 436514.134 | 2.15 |
| 054 | Vegetables | 404924.332 | 1.99 |
| 542 | Medicaments (incl. veterinary medicaments) | 355569.189 | 1.75 |
| 785 | Motorcycles & cycles | 346154.728 | 1.70 |
| 075 | Spices | 319342.085 | 1.57 |
| 679 | Tubes, pipes & hollow profiles, fittings, iron, steel | 298414.441 | 1.47 |
| 752 | Motor vehicles for transport of goods, special purpose. | 289627.052 | 1.43 |
| 793 | Ships, boats & floating structures | 286318.956 | 1.41 |
| 042 | Rice | 278001.392 | 1.37 |
| 672 | Ingots, primary forms, of iron or steel; semi-finis. | 264977.888 | 1.30 |
| 781 | Motor vehicles for the transport of persons | 249004.903 | 1.23 |

UNCTAD Database

Table 2: Commodity Composition of Bangladesh's Trade 2012

| Commodity Category | Export | Export Percent | Import | Import Percent |
|-----------------------------------|--------|----------------|--------|----------------|
| Agricultural Products | 1310 | 5.22 | 9768 | 28.62 |
| Food | 970 | 3.86 | 7243 | 21.22 |
| Fuels and Mineral Products | 266 | 1.06 | 3218 | 9.43 |
| Fuels | 98 | 0.39 | 2412 | 7.07 |
| Manufacture | 23495 | 93.56 | 19572 | 57.34 |
| Iron and Steel | 18 | 0.07 | 1887 | 5.53 |
| Chemicals | 141 | 0.56 | 3874 | 11.35 |
| Pharmaceuticals | 37 | 0.15 | 421 | 1.23 |
| Machinery and Transport Equipment | 223 | 0.89 | 7460 | 21.86 |
| Office and Telecom Equipments | 23 | 0.09 | 1119 | 3.28 |
| EDO and OE | 3 | 0.01 | 270 | 0.79 |

Table 2: Contd.,

| | | | | |
|--------------|--------------|-------|--------------|-------|
| Telecom | 11 | 0.04 | 745 | 2.18 |
| IC and EC | 9 | 0.04 | 104 | 0.30 |
| Automotive | 12 | 0.05 | 607 | 1.78 |
| Textile | 1634 | 6.51 | 5840 | 17.11 |
| Clothing | 19948 | 79.43 | 276 | 0.81 |
| Total | 25113 | | 34131 | |

Source: WTO ITS 2006

Table 3: Commodity Composition of India's Trade 2012

| Commodity Category | Export Million US \$ | Export Percent | Import Million US \$ | Import Percent |
|--------------------------------------|-------------------------|-------------------|----------------------------|-------------------|
| Agricultural Products | 42395 | 14.41 | 25668 | 5.24 |
| Food | 30534 | 10.38 | 17672 | 3.61 |
| Fuels and Mineral Products | 64348 | 21.88 | 210285 | 42.94 |
| Fuels | 54377 | 18.49 | 185677 | 37.92 |
| Manufacture | 180146 | 61.24 | 188337 | 38.46 |
| Iron and Steel | 10885 | 3.70 | 10938 | 2.23 |
| Chemicals | 34502 | 11.73 | 44502 | 9.09 |
| Pharmaceuticals | 10860 | 3.69 | 3069 | 0.63 |
| Machinery and Transport Equipment | 39729 | 13.51 | 79005 | 16.13 |
| Office and Telecom Equipments | 5401 | 1.84 | 25120 | 5.13 |
| EDO and OE | 713 | 0.24 | 7611 | 1.55 |
| Telecom | 4294 | 1.46 | 13541 | 2.77 |
| IC and EC | 394 | 0.13 | 3968 | 0.81 |
| Automotive | 10038 | 3.41 | 5870 | 1.20 |
| Textile | 15274 | 5.19 | 3318 | 0.68 |
| Clothing | 13833 | 4.70 | 403 | 0.08 |
| Total | 294158 | | 489668 | |

Source: WTO ITS Database

Table 4: Commodity Composition of Pakistan Trade- 2012

| Commodity Category | Export Million US \$ | Percent | Import Million US \$ | Percent |
|--------------------------------------|----------------------------|---------|----------------------------|---------|
| Agricultural Products | 4979 | 20.27 | 6524 | 14.77 |
| Food | 4187 | 17.04 | 4846 | 10.97 |
| Fuels and Mineral Products | 825 | 3.36 | 17092 | 38.71 |
| Fuels | 330 | 1.34 | 15947 | 36.11 |
| Manufacture | 18506 | 75.33 | 19872 | 45.00 |
| Iron and Steel | 193 | 0.79 | 1427 | 3.23 |
| Chemicals | 928 | 3.78 | 6589 | 14.92 |
| Pharmaceuticals | 169 | 0.69 | 760 | 1.72 |
| Machinery and Transport Equipment | 376 | 1.53 | 8113 | 18.37 |
| Office and Telecom Equipments | 59 | 0.24 | 1848 | 4.19 |
| EDO and OE | 4 | 0.02 | 292 | 0.66 |
| Telecom | 55 | 0.22 | 1494 | 3.38 |
| IC and EC | | 0.00 | 62 | 0.14 |
| Automotive | 33 | 0.13 | 1451 | 3.29 |
| Textile | 8705 | 35.43 | 1077 | 2.44 |
| Clothing | 4214 | 17.15 | 71 | 0.16 |
| Total | 24567 | | 44157 | |

Source: WTO ITS Database

Table 5: Commodity Composition of Sri Lanka 2012 (Value in Million US\$)

| Commodity Category | Export | Percent | Import | Percent |
|-----------------------------------|---------------|----------------|---------------|----------------|
| Agricultural Products | 2732 | 29.13 | 2278 | 11.88 |
| Food | 2426 | 25.86 | 2038 | 10.62 |
| Fuels and Mineral Products | 103 | 1.10 | 4074 | 21.24 |
| Fuels | 33 | 0.35 | 3830 | 19.97 |
| Manufacture | 6501 | 69.31 | 11246 | 58.62 |
| Iron and Steel | 5 | 0.05 | 694 | 3.62 |
| Chemicals | 142 | 1.51 | 1807 | 9.42 |
| Pharmaceuticals | 4 | 0.04 | 343 | 1.79 |
| Machinery and Transport Equipment | 574 | 6.12 | 4002 | 20.86 |
| Office and Telecom Equipments | 19 | 0.20 | 678 | 3.53 |
| EDO and OE | 3 | 0.03 | 212 | 1.11 |
| Telecom | 10 | 0.11 | 436 | 2.27 |
| IC and EC | 6 | 0.06 | 30 | 0.16 |
| Automotive | 18 | 0.19 | 1146 | 5.97 |
| Textile | 226 | 2.41 | 2185 | 11.39 |
| Clothing | 4005 | 42.70 | 176 | 0.92 |
| Total | 9380 | | 19183 | |

Source: WTO ITS Database